

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 24, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of School District of the City of East Lansing's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of June 30, 2005, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2005, on our consideration of School District of the City of East Lansing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education
School District of the City of East Lansing

August 24, 2005

The management's discussion and analysis and budgetary comparison information on pages vi through xvi and page 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of East Lansing's basic financial statements. The additional information on pages 29 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mamay, Costenusan & Ellis, P.C.

Certified Public Accountants

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



The School District of the City of East Lansing, a K-12 public school district located in Ingham and Clinton Counties, Michigan is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis (MD&A), a requirement of GASB 34, is intended to be the School District of the City of East Lansing's management's review of financial performance for the year ended June 30, 2005. The MD&A is intended to be read in conjunction with the District's financial statements. Prior year information is provided for comparative analysis.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements are new per GASB 34 and provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. These statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons for the general fund. The remaining statements are provided for additional analysis.

Government-wide Financial Statements – Reporting the School District as a Whole

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets and liabilities, both short and long-term, and all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets (the difference between assets and liabilities), as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

Fund Financial Statements – Reporting the School District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. For the most part these fund level statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported.

All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

Fiduciary Statements – Reporting the School District's Trustee Responsibility

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



The School District as a Whole – Summary of Net Assets

The Statement of Net Assets provides the perspective of the District as a whole. The following schedule summarizes the net assets as of June 30, 2005 and June 30, 2004:

	2005	2004
ASSETS:		
Current assets	\$ 20,301,367	\$ 37,071,807
Noncurrent assets	78,339,390	62,937,763
Total assets	<u>\$ 98,640,757</u>	<u>\$ 100,009,570</u>
LIABILITIES:		
Current liabilities	\$ 12,501,739	\$ 12,319,901
Long-term liabilities	88,343,264	89,555,894
Total liabilities	<u>100,845,003</u>	<u>101,875,795</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	2,789,891	(3,494,893)
Restricted for capital projects (sinking fund)	1,969,109	2,342,656
Unrestricted	<u>(6,963,246)</u>	<u>(713,988)</u>
Total net assets (deficit)	<u>(2,204,246)</u>	<u>(1,866,225)</u>
Total liabilities and net assets (deficit)	<u>\$ 98,640,757</u>	<u>\$ 100,009,570</u>

Analysis of Financial Position

For the fiscal year ended June 30, 2005, the District's net assets (deficit) increased by \$338,021. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

As a result of GASB 34, the District is required to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



The District records depreciation expense on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, when applicable. For the fiscal year ended June 30, 2005 and June 30, 2004, the following was recorded as depreciation expense:

	2005	2004
Land improvements	\$ 102,575	\$ 92,863
Building and additions	902,706	703,997
Furniture and equipment	366,833	254,871
Transportation and equipment	37,483	40,591
Total	<u>\$ 1,409,597</u>	<u>\$ 1,092,322</u>

One approach of interpreting depreciation expense is that in order to maintain net assets at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2005, \$16,217,291 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

The net effect of capital asset additions, deletions, and the current year's depreciation expense is an increase to capital assets in the amount of \$14,807,694 for the fiscal year ended June 30, 2005. The majority of this increase is due to the 2000 Capital Projects construction.

3. Compensated Absences

The District's liability for employee compensated absences for the fiscal year ended June 30, 2005 increased by \$2,566,275. The majority of the increase is a result of contract language changes with the District's major bargaining union.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net assets.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



For the fiscal year ended June 30, 2005 and June 30, 2004, the District-wide results of operation were:

	2005	% of total	2004	% of total
General revenues:				
Property taxes, levied for general operations	\$ 8,152,861	19.5	\$ 7,637,956	17.9
Property taxes, levied for debt service	6,514,095	15.5	6,139,705	14.4
Property taxes, levied for sinking fund	1,200,699	2.9	1,102,777	2.6
Investment earnings	1,006,999	2.4	2,453,842	5.7
State sources	20,366,060	48.6	20,978,969	49.1
County special education allocation	2,382,117	5.7	2,162,102	5.1
Other	298,954	0.7	313,314	0.7
Total general revenues	39,921,785	95.3	40,788,665	95.5
Program revenues:				
Charges for services	837,548	2.0	796,490	1.9
Operating grants	1,146,319	2.7	1,128,556	2.6
Total revenues	<u>\$ 41,905,652</u>	<u>100.0</u>	<u>\$ 42,713,711</u>	<u>100.0</u>
Function/program expenses:				
Instruction	\$ 22,723,048	53.8	\$ 18,418,808	48.4
Support services	12,009,853	28.4	11,897,754	31.3
Community services	29,182	0.1	25,139	0.1
Food services	914,522	2.2	841,912	2.2
Athletics	708,777	1.7	674,698	1.8
Interest on long-term debt	4,448,694	10.5	5,080,793	13.4
Unallocated depreciation	1,409,597	3.3	1,092,322	2.8
Total expenses	<u>\$ 42,243,673</u>	<u>100.0</u>	<u>\$ 38,031,426</u>	<u>100.0</u>

Significant revenues and expenditures are discussed in the segments below:

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property's market value.

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2005 was approximately \$31,000, or .38% of the total General Fund levy.

The following schedule summarizes the millages levied for the past five years:

Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2004 - 2005	0.9472	17.0528	7.0000	1.3000
2003 - 2004	0.9609	17.0391	7.0000	1.2676
2002 - 2003	1.0775	16.9225	7.0000	1.2716
2001 - 2002	1.1417	16.8583	7.0000	1.2788
2000 - 2001	1.1440	16.8560	7.0000	1.2909

The following schedule summarizes the property taxes generated for the past five years (these amount have been calculated using the latest taxable values known for each fiscal year and are subject to change each September when revised valuations are determined):

Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2004 - 2005	\$ 874,254	\$ 7,272,492	\$ 6,460,918	\$ 1,199,885
2003 - 2004	839,382	6,871,090	6,114,759	1,107,296
2002 - 2003	893,610	6,394,112	5,805,355	1,054,584
2001 - 2002	896,338	6,013,885	5,495,636	1,003,974
2000 - 2001	846,072	5,532,722	5,177,014	954,715

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count (the fourth Wednesday of September) and 25% of the prior year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2005 was \$8,132.

The following schedule summarizes the District's per pupil allowance over the past five years:

<u>Fiscal year</u>	<u>Per pupil allowance</u>	<u>\$ increase from prior year</u>
2004 - 2005	\$ 8,132	\$
2003 - 2004	8,132	
2002 - 2003	8,132	200
2001 - 2002	7,932	300
2000 - 2001	7,632	238

Non-resident pupils that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,132 the District receives for its resident pupils.

Unlike the two previous fiscal years, the State of Michigan did not enacted a pro-ration to the State School Aid in order to balance the State's budget. A pro-ration of the per pupil allowance resulted in approximately \$264,000 of less lost revenue to the District for fiscal year ended 2004. Thus, as indicated above, the flat increase in the per pupil allowance for fiscal year ended 2004 was actually a decrease in funding due to the pro-ration.

3. Student Enrollment

The District's enrollment figures have gradually declined over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

<u>Fiscal year</u>	<u>Actual blended student FTE</u>	<u>FTE change from prior year</u>
2004 - 2005	3,514	(46)
2003 - 2004	3,560	(67)
2002 - 2003	3,627	(66)
2001 - 2002	3,693	96
2000 - 2001	3,597	(16)

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



4. County Special Education Allocation

The District receives an allocation, based on a complex funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year ended June 30, 2005, the District received \$2,382,117. This amount represents an increase of \$220,015 over the prior fiscal year. An increase in the total county-wide allocation contributed to the majority of this increase.

5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures for fiscal years 2004-2005 and 2003-2004:

Function	2004 - 2005 fiscal year	%	2003 - 2004 fiscal year	%
Basic programs	\$ 15,571,393	48.1	\$ 14,462,547	47.7
Special education	3,359,964	10.4	2,976,170	9.8
Compensatory education	897,470	2.8	854,020	2.8
Total instruction	19,828,827	61.3	18,292,737	60.3
Pupil support services	2,258,546	7.0	1,932,300	6.4
Instructional staff support services	1,279,008	4.0	1,138,686	3.8
School administration	2,274,243	7.0	2,141,473	7.1
Total instructional support	5,811,797	18.0	5,212,459	17.3
General administration	400,314	1.2	527,607	1.7
Business office	727,579	2.2	656,727	2.2
Operations and maintenance	3,381,286	10.5	3,549,735	11.7
Pupil transportation	657,799	2.0	602,250	2.0
Central	1,109,467	3.4	1,121,385	3.7
Community services	29,182	0.1	25,139	0.1
Outgoing transfers and loan payments	406,107	1.3	357,911	1.0
Total general fund	32,352,358	100.0	30,345,950	100.0
Food service fund	914,522		841,912	
Athletic fund	708,777		674,698	
Debt service fund	7,343,733		7,671,492	
Sinking fund	1,140,094		839,031	
2000 capital projects fund	14,998,808		30,609,589	
Total	\$ 57,458,292		\$ 70,982,672	

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and June.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

Fiscal year	Revenues and Other Financing Sources		
	Budget	Actual	Variance
2004 - 2005	\$ 32,062,669	\$ 32,201,040	0.43%
2003 - 2004	31,951,097	32,023,780	0.23%
2002 - 2003	32,971,385	32,897,357	-0.22%
2001 - 2002	32,859,225	32,851,721	-0.02%
2000 - 2001	31,515,009	31,297,126	-0.69%
Five year average over (under) budget			-0.05%

The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

Fiscal year	Expenditures and Other Financing Uses		
	Budget	Actual	Variance
2004 - 2005	\$ 33,128,066	\$ 32,906,276	-0.67%
2003 - 2004	31,209,712	30,891,542	-1.02%
2002 - 2003	33,410,826	32,578,547	-2.49%
2001 - 2002	34,173,935	33,788,558	-1.13%
2000 - 2001	34,020,410	33,537,841	-1.42%
Five year average over (under) budget			-1.35%

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



Capital and Intangible Asset and Debt Administration

1. Capital and Intangible Assets

At June 30, 2005, the District had \$78,339,390 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and school buses and other vehicles. This amount represents a net increase of \$15,401,627 due in large part to the 2000 Capital Projects construction and remodeling.

The following schedule shows the net book value of the District's capital assets by class type:

	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 875,544	\$ -	\$ 875,544	\$ 875,544
Construction in progress	46,451,444	-	46,451,444	33,286,293
Land improvements	3,007,436	(1,394,844)	1,612,592	1,487,059
Building and additions	38,577,665	(13,441,075)	25,136,590	25,015,073
Furniture and equipment	5,204,408	(1,719,019)	3,485,389	2,145,258
Transportation equipment	817,160	(633,260)	183,900	128,536
Total	<u>\$ 94,933,657</u>	<u>\$ (17,188,198)</u>	\$ 77,745,459	
Issuance cost for bonds, net of amortization			<u>593,931</u>	
Grand Total			<u>\$ 78,339,390</u>	<u>\$ 62,937,763</u>

2. Long-term Debt

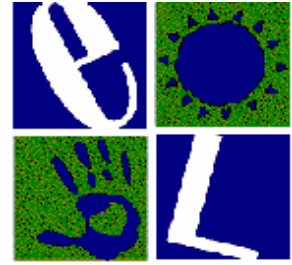
At June 30, 2005, the District had \$83,698,344 in general obligation bonded debt outstanding versus \$84,890,085 at June 30, 2004.

During the fiscal year ended June 30, 2005 the District refinanced its 1991 Capital Appreciation Bonds, 1996 Refunding Bonds and 2000 General Obligation Bonds resulting in two new bond issues. An economic gain of \$4,449,555 resulted from these two advanced refundings. See Notes To Financial Statements, Note 6.

The District continues to participate in the School Bond Loan Fund (SBLF) program, borrowing for debt service repayment while maintaining the debt service millage at 7.0000 mills. During the fiscal year the District issued \$143,976 in new borrowings under SBLF.

School District of the City of East Lansing

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2005



The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- **Enrollment:** State Aid Foundation revenue received is driven by the District's blended student enrollment. The District is anticipating a continued decline in enrollment for the upcoming fiscal year 2006.
- **Foundation Allowance:** The per pupil foundation allowance the District receives from the State is anticipated to increase by \$175 for fiscal year 2006. If State revenues fall short of projections, districts across the state may face a pro-ration of their foundation allowances once again. The last foundation allowance increase that was not pro-rated was fiscal year ending June 30, 2002.
- **Health Insurance:** Districts across the State continue to incur rapid increases in the premiums they pay for employee benefits, in particular health insurance. Through negotiations with its bargaining units, the District was able to secure a relatively low health insurance rate increase of .64% for the upcoming fiscal year 2006. Health insurance rates increase 13.72% for fiscal year 2005.
- **Retirement Rate:** The State increased the retirement rate to 16.34%, effective October 1, 2005, that is charged to districts to fund the retirement system. The new rate represents a 9.89% increase over the prior year's rate. It is anticipated that higher rates are on the horizon as the number of retirees increase.
- **Employee Contracts:** The contract with Teamsters Local Union 580, the union that represents the bus driver staff, expired on June 30, 2002. All other union contracts are settled through June 30, 2006. Contract negotiations are on going.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 841 Timberlane Street, Suite A, East Lansing, MI 48823.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash	\$ 4,499,161
Investments	11,562,744
Receivables:	
Accounts receivable	126,088
Accrued interest	25,817
Other governmental units including property taxes	4,033,324
Inventories	35,602
Prepaid expenditures	<u>18,631</u>
 TOTAL CURRENT ASSETS	 <u>20,301,367</u>
NONCURRENT ASSETS:	
Issuance cost for bonds, net of amortization	593,931
Capital assets	94,933,657
Less accumulated depreciation	<u>(17,188,198)</u>
 TOTAL NONCURRENT ASSETS	 <u>78,339,390</u>
 TOTAL ASSETS	 <u><u>\$ 98,640,757</u></u>

See notes to financial statements.

	Governmental activities
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable	\$ 2,000,220
Accrued interest	953,134
Accrued salaries and related items	2,749,619
Deferred revenue	36,933
Due to other governmental units	65,433
Current portion of long-term obligations	5,633,364
Current portion of employee compensated absences and severance benefits	255,781
Arbitrage	807,255
TOTAL CURRENT LIABILITIES	12,501,739
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	78,126,845
School bond loan fund	3,506,762
Noncurrent portion of compensated absences and severance benefits	6,709,657
TOTAL NONCURRENT LIABILITIES	88,343,264
TOTAL LIABILITIES	100,845,003
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	2,789,891
Restricted for capital projects (sinking fund)	1,969,109
Unrestricted	(6,963,246)
TOTAL NET ASSETS (DEFICIT)	(2,204,246)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 98,640,757

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 22,723,048	\$	\$ 582,791	\$ (22,140,257)
Support services	12,009,853	105,448	216,216	(11,688,189)
Community services	29,182	30,843	3,307	4,968
Food services	914,522	552,748	344,005	(17,769)
Athletics	708,777	148,509		(560,268)
Interest on long-term debt	4,448,694			(4,448,694)
Unallocated depreciation	1,409,597			(1,409,597)
Total governmental activities	<u>\$ 42,243,673</u>	<u>\$ 837,548</u>	<u>\$ 1,146,319</u>	<u>(40,259,806)</u>
General revenues:				
Property taxes, levied for general purposes				8,152,861
Property taxes, levied for debt service				6,514,095
Property taxes, levied for sinking fund				1,200,699
Investment earnings				1,006,999
State sources				20,366,060
Ingham ISD allocation				2,382,117
Other				298,954
Total general revenues				<u>39,921,785</u>
CHANGE IN NET ASSETS				<u>(338,021)</u>
NET ASSETS (DEFICIT), beginning of year				<u>(1,866,225)</u>
NET ASSETS (DEFICIT), end of year				<u>\$ (2,204,246)</u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General fund	Sinking fund	2000 capital projects funds	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash	\$ 2,120,859	\$ 658,440	\$ 778,898	\$ 940,964	\$ 4,499,161
Investments	310,208	1,623,962	9,628,574		11,562,744
Receivables:					
Accounts receivable	76,530		13,636	35,922	126,088
Accrued interest		4,043	21,774		25,817
Other governmental units including property taxes	4,018,516	1,448		13,360	4,033,324
Inventories	21,655			13,947	35,602
Prepaid expenditures	18,295			336	18,631
TOTAL ASSETS	\$ 6,566,063	\$ 2,287,893	\$ 10,442,882	\$ 1,004,529	\$ 20,301,367
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 228,019	\$ 318,656	\$ 1,424,917	\$ 28,628	\$ 2,000,220
Accrued salaries and related items	2,736,549			13,070	2,749,619
Deferred revenue	170,996			18,331	189,327
Due to other governmental units	64,616	128		689	65,433
TOTAL LIABILITES	3,200,180	318,784	1,424,917	60,718	5,004,599
FUND BALANCES:					
Reserved for:					
Debt service				846,118	846,118
Inventories	21,655			13,947	35,602
Prepaid expenditures	18,295			336	18,631
2000 capital projects fund			9,017,965		9,017,965
Sinking fund		1,969,109			1,969,109
Deferred retirement incentives	317,954				317,954
Non-current portion of receivables	55,441				55,441

	General fund	Sinking fund	2000 capital projects funds	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES (Concluded):					
Designated	\$ 61,865	\$	\$	\$	\$ 61,865
Designated for subsequent year expenditures	301,767				301,767
Total reserved or designated	776,977	1,969,109	9,017,965	860,401	12,624,452
Unreserved and undesignated	2,588,906			83,410	2,672,316
TOTAL FUND BALANCES	3,365,883	1,969,109	9,017,965	943,811	15,296,768
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,566,063	\$ 2,287,893	\$ 10,442,882	\$ 1,004,529	\$ 20,301,367
Total Governmental Fund Balances					\$ 15,296,768

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				\$ 94,933,657	
Accumulated depreciation is				(17,188,198)	
					77,745,459
Revenue not recorded in the funds due to not being collected after September 1, 2005:					
Special Education payment due from IISD					104,575
Asbestos settlement receivable					32,294
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(83,508,968)
Deferred bond premiums					(4,080,522)
Deferred gain on bond refunding					3,819,589
Issuance costs for bonds					604,005
Amortization - net					(380)
School bond loan payable					(3,506,762)
Arbitrage payable					(807,255)
Compensated absences					(6,965,438)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid					(953,134)
Balance of taxes receivable at June 30, 2005 less allowance for doubtful accounts expected to be collected after September 1, 2005					15,523
Net assets (deficit) of governmental activities					\$ (2,204,246)

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General fund	Sinking fund	2000 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 8,196,840	\$ 1,200,699	\$	\$ 6,514,095	\$ 15,911,634
Payment in lieu of taxes		4,698		25,296	29,994
Penalties and interest on delinquent taxes	9,498	868		4,657	15,023
M.S.U. reimbursement				105,448	105,448
Investment earnings	101,985	60,282	761,191	68,518	991,976
Food sales and athletic admissions				626,870	626,870
Other	278,262			87,674	365,936
Total local revenues	8,586,585	1,266,547	761,191	7,432,558	18,046,881
State sources	20,354,914			41,789	20,396,703
Federal sources	801,827			313,849	1,115,676
Incoming transfers and other transactions	2,369,005				2,369,005
Total revenues	32,112,331	1,266,547	761,191	7,788,196	41,928,265
EXPENDITURES:					
Current:					
Instruction:					
Basic programs	15,571,393				15,571,393
Added needs	4,257,434				4,257,434
Total instruction	19,828,827				19,828,827
Support services:					
Pupil	2,258,546				2,258,546
Instructional staff	1,279,008				1,279,008
School administration	2,274,243				2,274,243
General administration	400,314				400,314
Business	727,579				727,579
EXPENDITURES (Concluded):					
Support services (Concluded):					
Operation and maintenance	\$ 3,381,286	\$	\$	\$	\$ 3,381,286
Pupil transportation	657,799				657,799
Central	1,109,467				1,109,467
Total support services	12,088,242				12,088,242
Athletics				708,777	708,777
Community services	29,182				29,182
Food service				914,522	914,522
Capital outlay		1,140,094	14,998,808		16,138,902
Outgoing transfers and other transactions	327,947				327,947
Debt service:					
Principal retirement	77,979			2,114,704	2,192,683
Interest and fiscal charges	181			3,798,398	3,798,579
Bond issuance costs				604,005	604,005
Advance refunding escrow				825,000	825,000
Professional fees				1,626	1,626
Total expenditures	32,352,358	1,140,094	14,998,808	8,967,032	57,458,292
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(240,027)	126,453	(14,237,617)	(1,178,836)	(15,530,027)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of bonds				74,290,000	74,290,000
Proceeds from premium on bonds				4,080,522	4,080,522
Payment to refunded bond escrow agent				(77,222,165)	(77,222,165)
Proceeds from school bond loan fund				143,976	143,976
Proceeds from sale of school property	8,254				8,254
Operating transfers in	80,455		500,000	851,465	1,431,920
Operating transfers out	(553,918)	(500,000)		(378,002)	(1,431,920)
Total other financing sources (uses)	(465,209)	(500,000)	500,000	1,765,796	1,300,587
NET CHANGE IN FUND BALANCES	(705,236)	(373,547)	(13,737,617)	586,960	(14,229,440)
FUND BALANCES:					
Beginning of year	4,071,119	2,342,656	22,755,582	356,851	29,526,208
End of year	\$ 3,365,883	\$ 1,969,109	\$ 9,017,965	\$ 943,811	\$ 15,296,768

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances total governmental funds **\$ (14,229,440)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(1,409,597)
Capital outlay	16,217,291
 Proceeds from sale of school property	 (8,254)
Gain on the sale of school property	8,254

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	926,056
Accrued interest payable end of the year	(953,134)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities):

Proceeds of school bond loan fund	(143,976)
Payments on debt	76,594,686
Proceeds from sale of bonds	(74,290,000)
Proceeds from premium on bonds	(4,080,522)
Loss on bond refunding	3,819,589
Bond issuance costs	604,005
Amortization of bond premiums	57,953
Long term accretion on capital appreciation bonds	(783,725)
Amortization of loss on bond refunding	(48,260)
Amortization of bond issuance cost	(10,074)
Long-term interest on school bond loan fund	(97,708)
Change in Arbitrage liability	85,977

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue beginning of the year	(183,261)
Accrued revenue end of the year	152,394

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and accumulated severance benefit beginning of the year	4,399,163
Accrued compensated absences and accumulated severance benefit end of the year	<u>(6,965,438)</u>

Change in net assets of governmental activities **\$ (338,021)**

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	Agency funds
	<hr/>
ASSETS	
Investments	\$ 388,131
Accounts receivable	<hr/> 3,831
TOTAL ASSETS	<hr/> \$ 391,962 <hr/>
LIABILITIES	
Accounts payable	\$ 35,009
Due to student, school, and other groups	<hr/> 356,953
TOTAL LIABILITIES	<hr/> \$ 391,962 <hr/>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District of the City of East Lansing have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District of the City of East Lansing (the "District") is governed by the School District of the City of East Lansing Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2000 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects *sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School code and the State of Michigan Department of Treasury Letter No. 01-95.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The 1991, 1996, 2000, 2005 and 2005 Series B *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2000 School Bonds activity:

Revenue and transfer in of \$1,000,000	<u>\$ 13,661,587</u>
Expenditures and transfers	<u>\$ 70,713,087</u>

The above revenue figure does not include original 2000 School Bond proceeds of \$ 66,069,465.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund:	
Operating - Non-homestead	17.0528
Supplemental - Homestead and non-homestead	0.9472
Debt service fund - Homestead and non-homestead	7.0000
Sinking fund - Homestead and non-homestead	1.3000

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when received. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences

The District’s contracts generally provide for retirement incentive, vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MBIA External Investment pool - CLASS	\$ 206,175	0.0027	Not rated	100%
Total fair value	<u>\$ 206,175</u>			<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in pooled short term investment funds which included money market funds. One of the pooled investment funds utilized by the District is MBIA. MBIA is an external pooled investment fund of "qualified" investments for Michigan school districts. MBIA is not regulated nor is it registered with the SEC. MBIA reports as of June 30, 2005, the fair value of the District's investments is the same as the value of the pool shares.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$15,941,861 of the District's bank balance of \$16,241,861 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above deposit figures are Bank money market deposits of \$809,907 and certificates of deposit of \$11,153,025.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Cash on hand	\$ 2,000
Deposits - including fiduciary funds of \$388,131	16,241,861
Investments	<u>206,175</u>
	<u><u>\$ 16,450,036</u></u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 388,131
Cash - District wide	4,499,161
Investments - District wide	<u>11,562,744</u>
	<u><u>\$ 16,450,036</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005 consist of the following:

Other governmental units:

State aid	\$ 3,692,041
Federal revenue	83,551
Ingham Intermediate School District	120,630
Property taxes	16,036
Other	<u>121,066</u>
	<u><u>\$ 4,033,324</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets at June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Reclassifications/ deletions	Balance June 30, 2005
Assets not being depreciated:				
Land	\$ 875,544	\$ -	\$ -	\$ 875,544
Construction in progress	33,286,293	13,165,151		46,451,444
	<u>34,161,837</u>	<u>13,165,151</u>	<u>-</u>	<u>47,326,988</u>
Other capital assets:				
Land improvements	2,779,328	228,108		3,007,436
Buildings and additions	37,553,442	1,024,223		38,577,665
Furniture and equipment	3,497,444	1,706,964		5,204,408
Vehicles	767,900	92,845	43,585	817,160
Total other capital assets	<u>44,598,114</u>	<u>3,052,140</u>	<u>43,585</u>	<u>47,606,669</u>
Accumulated depreciation:				
Land improvements	1,292,269	102,575		1,394,844
Building and improvements	12,538,369	902,706		13,441,075
Furniture and equipment	1,352,186	366,833		1,719,019
Vehicles	639,362	37,483	43,585	633,260
Total accumulated depreciation	<u>15,822,186</u>	<u>1,409,597</u>	<u>43,585</u>	<u>17,188,198</u>
Net other capital assets	<u>28,775,928</u>	<u>1,642,543</u>	<u>-</u>	<u>30,418,471</u>
Net capital assets	<u>\$ 62,937,765</u>	<u>\$ 14,807,694</u>	<u>\$ -</u>	<u>\$ 77,745,459</u>

Amounts included in capital assets include only items greater than \$5,000.

Depreciation for the fiscal year ended June 30, 2005 amounted to \$1,409,597. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation debts currently outstanding at June 30, 2005 are as follows:

1991 capital appreciation (serial) bonds due in an annual installment of \$2,095,000 through May 1, 2006, with interest at 6.75% to 6.90%.	\$ 2,107,103
2000 general obligation bonds due in annual installments of \$1,175,000 to \$1,750,000 through May 1, 2010, with interest at 4.55% to 4.80%.	7,050,000
2005 general obligation bonds due in annual installments of \$1,780,000 to \$2,795,000 through May 1, 2014, with interest at 3.00% to 5.00%.	18,815,000
2005 Series B general obligation bonds due in annual installments of \$105,000 to \$3,045,000 through May 1, 2030, with an interest at 3.00% to 5.00%.	55,475,000
Less: Loss on bond refunding	(3,771,329)
Plus: Premium on 2005 issuance	<u>4,022,570</u>
Total general obligation	83,698,344
Rebatable arbitrage due to the Internal Revenue Service by November 30, 2005 with respect to the \$66,080,000 2000 School Building and Site Bonds.	807,255
Borrowing from the State of Michigan School Bond Loan Fund including interest due at the times determined by the State Treasurer	3,506,762
Promissory note with the United States Environmental Protection Agency payable in semi-annual installments of \$4,490, commencing on June 30, 1988 and continuing until December 30, 2005. The promissory note is provided under a federal program and is interest free.	4,940

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Promissory note with the United States Environmental Protection Agency payable in semi-annual installments of \$5,883, commencing June 30, 1989 and continuing until December 30, 2005. The promissory note is provided under a federal program and is interest free.	\$ 1,288
Promissory note with the United States Environmental Protection Agency payable in semi-annual installments of \$6,654, commencing May 30, 1991 and continuing until May 30, 2009. The promissory note is provided under a federal program and is interest free.	55,637
Employee compensated absences	<u>6,965,438</u>
Total general long-term debt	<u><u>\$ 95,039,664</u></u>

On February 24, 2005, the School District of the City of East Lansing issued general obligation bonds of \$18,815,000 with an interest rate ranging from 3.00% to 5.00% to advance refund bonds with an interest rate ranging from 4.6% to 7.0%. The bonds mature on May 1, 2014. The general obligation bonds were issued at a premium after paying issuance costs of \$181,808 which includes the underwriters discount, the net proceeds were \$19,368,057. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$1,676,040, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,478,090.

On March 29, 2005, the School District of the City of East Lansing issued general obligation bonds of \$55,475,000 with an interest rate ranging from 3.00% to 5.00% to advance refund bonds with an interest rate ranging from 4.55% to 5.75%. The bonds mature on May 1, 2030. The general obligation bonds were issued at a premium after paying issuance costs of \$2,893,621 which includes the underwriters discount, the net proceeds were \$58,368,621. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in a irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

As a result of the advance refunding, the District reduced its total debt service requirements by \$4,595,180, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,971,465.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2005, \$73,425,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term obligations as of June 30, 2005, including interest of \$49,147,193 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 4,362,392	\$ 4,054,242	\$ 8,416,634
2007	3,683,909	3,751,338	7,435,247
2008	3,833,909	3,622,438	7,456,347
2009	3,968,910	3,484,625	7,453,535
2010	4,115,000	3,314,750	7,429,750
2011-2015	20,190,000	13,776,175	33,966,175
2016-2020	14,185,000	8,854,125	23,039,125
2021-2025	15,070,000	6,035,000	21,105,000
2026-2030	15,055,000	2,254,500	17,309,500
	84,464,120	49,147,193	133,611,313
Unrealized appreciation	(147,897)		(147,897)
Loss on bond refunding	(3,771,329)		(3,771,329)
Unamortized premium on bond issuance	4,022,570		4,022,570
Accumulated compensated absences	6,965,438		6,965,438
Due to school bond loan fund	3,506,762		3,506,762
	<u>\$ 95,039,664</u>	<u>\$ 49,147,193</u>	<u>\$ 144,186,857</u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

An amount of \$846,118 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2005:

	Compensated absences	Arbitrage	School Bond Loan Fund	Bonds and other debt	Total
Balance, July 1, 2004	\$ 4,399,163	\$ 893,232	\$ 3,265,078	\$ 85,029,928	\$ 92,587,401
Additions	2,741,506		241,684	74,290,000	77,273,190
Deletions	<u>(175,231)</u>	<u>(85,977)</u>		<u>(75,559,719)</u>	<u>(75,820,927)</u>
Balance, June 30, 2005	6,965,438	807,255	3,506,762	83,760,209	95,039,664
Less current portion	<u>(255,781)</u>	<u>(807,255)</u>		<u>(5,633,364)</u>	<u>(6,696,400)</u>
Total due after one year	<u>\$ 6,709,657</u>	<u>\$ -</u>	<u>\$ 3,506,762</u>	<u>\$ 78,126,845</u>	<u>\$ 88,343,264</u>

NOTE 7 - OPERATING LEASE

The District leases copy machines under an operating lease agreement with the lease starting August 18, 2003 and ending August 18, 2008, with monthly payments of \$11,726 a month. Expense for copy lease for the year ended June 30, 2005 was \$140,714. Future operating lease commitments are as follows:

Year ending June 30,	Copier Lease
2006	\$ 140,714
2007	140,714
2008	140,714
2009	<u>16,722</u>
Total	<u>\$ 438,864</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005, were 12.99% of payroll through September 30, 2004, and 14.87% effective October 1, 2004 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2005, 2004 and 2003 were \$2,787,928, \$2,384,691 and \$2,606,501, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

NOTE 10 - TRANSFERS

The general fund transferred \$553,918 to the athletic fund to subsidize operations. The school lunch fund transferred \$80,455 to the general fund. The transfer from the school lunch fund to the general fund was made to cover indirect cost paid for by the general fund that relate to school lunch activities. These activities include utilities, phone, sewage, custodial, lunch room monitors, building repairs and maintenance of the food service area. The sinking fund transferred \$500,000 to the 2000 capital projects fund for capital outlay related to MacDonald middle school. As a result of the advance refunding of the 1991, 1996 and 2000 bonds, the 1996 debt service fund transferred \$85,483, \$79,141 and \$132,923 to the 1991, 2000 and 2005 debt service funds, respectively to pay for general obligation bonded debt.

REQUIRED SUPPLEMENTARY INFORMATION

	Original budget	Final budget	Actual	Variance with final budget-positive (negative)
REVENUES:				
Local sources	\$ 8,236,229	\$ 8,417,503	\$ 8,586,585	\$ 169,082
State sources	20,286,143	20,354,489	20,354,914	425
Federal sources	892,156	845,208	801,827	(43,381)
Incoming transfers and other transactions	2,002,000	2,362,203	2,369,005	6,802
Total revenues	31,416,528	31,979,403	32,112,331	132,928
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	14,878,002	15,630,864	15,571,393	59,471
Added needs	4,009,477	4,277,594	4,257,434	20,160
Total instruction	18,887,479	19,908,458	19,828,827	79,631
Support services:				
Pupil	2,034,784	2,262,557	2,258,546	4,011
Instructional staff	1,200,751	1,300,377	1,279,008	21,369
General administration	457,263	411,538	400,314	11,224
School administration	2,258,119	2,273,911	2,274,243	(332)
	Original budget	Final budget	Actual	Variance with final budget-positive (negative)
EXPENDITURES (Concluded):				
Support services (Concluded):				
Business	\$ 649,347	\$ 747,172	\$ 727,579	\$ 19,593
Operation and maintenance	3,348,945	3,402,556	3,381,286	21,270
Pupil transportation	691,934	686,158	657,799	28,359
Central	1,268,147	1,149,705	1,109,467	40,238
Total support services	11,909,290	12,233,974	12,088,242	145,732
Community services	29,217	32,624	29,182	3,442
Outgoing transfers and other transactions	329,433	320,932	327,947	(7,015)
Payment on loans	58,641	78,160	78,160	
Total expenditures	31,214,060	32,574,148	32,352,358	221,790
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	202,468	(594,745)	(240,027)	354,718
OTHER FINANCING SOURCES (USES):				
Sale of school property	4,000	8,266	8,254	(12)
Operating transfer from other funds	75,000	75,000	80,455	5,455
Operating transfers to other funds	(484,987)	(553,918)	(553,918)	
Total other financing sources (uses)	(405,987)	(470,652)	(465,209)	5,443
NET CHANGE IN FUND BALANCE				
	\$ (203,519)	\$ (1,065,397)	(705,236)	\$ 360,161
FUND BALANCE:				
Beginning of year			4,071,119	
End of year			\$ 3,365,883	

ADDITIONAL INFORMATION

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2005**

	<u>Special revenue funds</u>	<u>Debt service funds</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash	\$ 131,057	\$ 809,907	\$ 940,964
Accounts receivable	6,083	29,839	35,922
Due from other governmental units	5,486	7,874	13,360
Inventories	13,947		13,947
Prepaid expenditures	336		336
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 156,909</u></u>	<u><u>\$ 847,620</u></u>	<u><u>\$ 1,004,529</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 27,815	\$ 813	\$ 28,628
Due to other governmental units		689	689
Accrued salaries and related items	13,070		13,070
Deferred cafeteria revenue	18,331		18,331
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>59,216</u>	<u>1,502</u>	<u>60,718</u>
FUND BALANCES:			
Reserved for:			
Debt service		846,118	846,118
Inventories	13,947		13,947
Prepaid expenditures	336		336
Unreserved and undesignated	83,410		83,410
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>97,693</u>	<u>846,118</u>	<u>943,811</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 156,909</u></u>	<u><u>\$ 847,620</u></u>	<u><u>\$ 1,004,529</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	Special revenue funds	Debt service funds	Total nonmajor governmental funds
REVENUES:			
Local sources:			
Property taxes	\$	\$ 6,514,095	\$ 6,514,095
Payment in lieu of taxes		25,296	25,296
Penalties and interest on delinquent taxes		4,657	4,657
M.S.U. reimbursement		105,448	105,448
Investment earnings		68,518	68,518
Food sales and athletic admissions	626,870		626,870
Other	87,674		87,674
Total local sources	714,544	6,718,014	7,432,558
State sources	41,789		41,789
Federal sources	313,849		313,849
Total revenues	1,070,182	6,718,014	7,788,196
EXPENDITURES:			
Athletics activities	708,777		708,777
Food service activities	914,522		914,522
Debt service:			
Principal repayment		2,114,704	2,114,704
Interest expense		3,798,398	3,798,398
Bond issuance costs		604,005	604,005
Advance refunding escrow		825,000	825,000
Professional fees		1,626	1,626
Total expenditures	1,623,299	7,343,733	8,967,032
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(553,117)	(625,719)	(1,178,836)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bonds		74,290,000	74,290,000
Proceeds from premium on bonds		4,080,522	4,080,522
Payment to refunded bond escrow agent		(77,222,165)	(77,222,165)
Transfer from other funds	553,918	297,547	851,465
Transfer to other funds	(80,455)	(297,547)	(378,002)
Proceeds from school bond loan fund		143,976	143,976
Total other financing sources	473,463	1,292,333	1,765,796
NET CHANGE IN FUND BALANCES	(79,654)	666,614	586,960
FUND BALANCES:			
Beginning of year	177,347	179,504	356,851
End of year	\$ 97,693	\$ 846,118	\$ 943,811

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF REVENUE
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
REVENUE:		
Local sources		
Property taxes, less refunds	\$ 8,196,840	\$ 7,647,870
Penalties and interest on delinquent property taxes	9,498	1,994
Interest on investments	101,985	42,960
Other community programs	30,843	32,137
Facility rent	144,897	133,452
Local grants	50,833	49,742
Asbestos		10,765
Miscellaneous	51,689	84,857
Total local sources	<u>8,586,585</u>	<u>8,003,777</u>
State sources:		
Foundation Allowance	15,162,157	15,629,723
Proposal A Discretionary	3,699,586	3,881,037
Special education Headlee	1,402,373	1,330,700
Prior year unrestricted adjustments	(15,448)	135,573
Prior year restricted adjustments	71,673	(58,484)
Durant II	33,401	33,401
Drivers education		12,120
Other	1,172	529
Total state sources	<u>20,354,914</u>	<u>20,964,599</u>
Federal sources:		
Title I - Improving Basic Programs	551,712	541,546
Title II Part A - Improving Teacher Quality	190,706	173,312
Title II Part D - Enhancing Ed. through Technology	8,608	22,186
Title III - Limited English Proficient	8,900	39,624
Title V Part A - Innovative Programs	2,150	2,890
Individuals with Disabilities Education Act - PPI	24,145	27,388
Safe and Drug Free Schools	1,296	2,380
Homeland security	13,335	4,240
Other	975	500
Total federal sources	<u>801,827</u>	<u>814,066</u>
Incoming transfers:		
Intermediate sources:		
Special education	2,345,755	2,138,683
Miscellaneous	23,250	20,606
Total incoming transfers	<u>2,369,005</u>	<u>2,159,289</u>
TOTAL REVENUE	<u><u>\$ 32,112,331</u></u>	<u><u>\$ 31,941,731</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
EXPENDITURES:		
Instruction:		
Basic programs:		
Elementary	\$ 5,971,975	\$ 5,658,362
Middle school	1,668,903	1,521,682
High school	3,643,938	3,468,457
Employee benefits	4,286,577	3,821,997
Total basic programs	<u>15,571,393</u>	<u>14,470,498</u>
Added needs:		
Special education	2,210,571	2,013,343
Compensatory education	644,446	627,181
Employee benefits	1,402,417	1,189,666
Total added needs	<u>4,257,434</u>	<u>3,830,190</u>
Total instruction	<u>19,828,827</u>	<u>18,300,688</u>
Supporting services:		
Pupil:		
Guidance	452,826	400,211
Health	44,186	57,727
Psychological	127,170	98,281
Speech pathology	379,966	319,807
Social work	214,361	166,461
Teacher consultant	325,042	269,811
Other	95,615	91,919
Employee benefits	619,380	520,132
Total pupil	<u>2,258,546</u>	<u>1,924,349</u>
Instructional staff:		
Improvement of education	280,018	288,674
Library	348,339	251,548
Supervision and direction	321,764	346,620
Academic pupil assessment	23,749	
Employee benefits	305,138	251,844
Total instructional staff	<u>1,279,008</u>	<u>1,138,686</u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
EXPENDITURES (Continued):		
Supporting services (Continued):		
School administration:		
Office of the principal	\$ 1,638,911	\$ 1,563,574
Other	14,230	16,342
Employee benefits	<u>621,102</u>	<u>561,557</u>
Total school administration	<u>2,274,243</u>	<u>2,141,473</u>
Total instructional support services	<u>5,811,797</u>	<u>5,204,508</u>
General administration:		
Board of education	116,493	156,439
Executive administration	209,116	266,581
Employee benefits	<u>74,705</u>	<u>104,587</u>
Total general administration	<u>400,314</u>	<u>527,607</u>
Business:		
Fiscal	365,088	348,573
Internal service	173,870	139,006
Other	19,643	16,180
Employee benefits	<u>168,978</u>	<u>152,968</u>
Total business	<u>727,579</u>	<u>656,727</u>
Operations and maintenance:		
Operating building services	3,075,290	3,082,064
Security	110,023	85,762
Employee benefits	<u>195,973</u>	<u>381,909</u>
Total operations and maintenance	<u>3,381,286</u>	<u>3,549,735</u>
Pupil transportation:		
Transportation	487,696	455,710
Employee benefits	<u>170,103</u>	<u>146,540</u>
Total pupil transportation	<u>657,799</u>	<u>602,250</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF EXPENDITURES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
EXPENDITURES (Concluded):		
Supporting services (Concluded):		
Central:		
Information	\$ 133,406	\$ 95,930
Personnel	201,835	196,286
Data processing	551,560	627,224
Pupil accounting	8,032	
Employee benefits	<u>214,634</u>	<u>201,945</u>
Total central	<u>1,109,467</u>	<u>1,121,385</u>
Total non-instructional supporting services	<u>6,276,445</u>	<u>6,457,704</u>
Total supporting services	<u>12,088,242</u>	<u>11,662,212</u>
Community services:		
Recreation	25,809	25,139
Other	<u>3,373</u>	
Total community services	<u>29,182</u>	<u>25,139</u>
Outgoing transfers:		
IISD teacher substitutes	316,809	298,944
Miscellaneous	<u>11,138</u>	<u>326</u>
Total outgoing transfers	<u>327,947</u>	<u>299,270</u>
Payment on loans	<u>78,160</u>	<u>58,641</u>
TOTAL EXPENDITURES	<u><u>\$ 32,352,358</u></u>	<u><u>\$ 30,345,950</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
GENERAL FUND
DETAIL OF OTHER FINANCING SOURCES AND USES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
OTHER FINANCING SOURCES:		
Transfer in from other funds:		
Food service	\$ 80,455	\$ 77,770
Sale of school property	<u>8,254</u>	<u>4,279</u>
TOTAL OTHER FINANCING SOURCES	<u><u>\$ 88,709</u></u>	<u><u>\$ 82,049</u></u>
 OTHER FINANCING USES:		
Transfers out to other funds:		
High school athletics	<u><u>\$ 553,918</u></u>	<u><u>\$ 545,592</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005

ASSETS	<u>Athletics</u>	<u>Food service</u>	<u>Totals</u>
Cash	\$ 16,134	\$ 114,923	\$ 131,057
Accounts receivable		6,083	6,083
Due from other governmental units		5,486	5,486
Inventories		13,947	13,947
Prepaid expenditures		336	336
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 16,134</u></u>	<u><u>\$ 140,775</u></u>	<u><u>\$ 156,909</u></u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,542	\$ 26,273	\$ 27,815
Accrued salaries and related items	7,655	5,415	13,070
Deferred cafeteria revenue		18,331	18,331
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,197</u>	<u>50,019</u>	<u>59,216</u>
Fund balances:			
Reserved for:			
Inventories		13,947	13,947
Prepaid expenditures		336	336
Unreserved and undesignated	6,937	76,473	83,410
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>6,937</u>	<u>90,756</u>	<u>97,693</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u><u>\$ 16,134</u></u>	 <u><u>\$ 140,775</u></u>	 <u><u>\$ 156,909</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005**

	Athletics	Food service	Totals
REVENUES:			
Local:			
Athletic admissions	\$ 74,122	\$	\$ 74,122
Activity and insurance fees	74,387		74,387
Food sales		552,748	552,748
Other	13,287		13,287
State aid		41,789	41,789
Federal aid		313,849	313,849
	<u>161,796</u>	<u>908,386</u>	<u>1,070,182</u>
Total revenues			
EXPENDITURES:			
Salaries and wages	421,839	278,364	700,203
Employee benefits	109,116	140,476	249,592
Cost of goods sold		391,846	391,846
Contracted services	105,235	42,425	147,660
Materials and supplies	63,905	32,740	96,645
Capital outlay		27,315	27,315
Other	8,682	1,356	10,038
	<u>708,777</u>	<u>914,522</u>	<u>1,623,299</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(546,981)</u>	<u>(6,136)</u>	<u>(553,117)</u>
OTHER FINANCING SOURCES (USES):			
Transfer from other funds	553,918		553,918
Transfer to other funds		(80,455)	(80,455)
	<u>553,918</u>	<u>(80,455)</u>	<u>473,463</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCES	6,937	(86,591)	(79,654)
FUND BALANCES, beginning of year	<u>177,347</u>	<u>177,347</u>	<u>177,347</u>
FUND BALANCES, end of year	<u><u>\$ 6,937</u></u>	<u><u>\$ 90,756</u></u>	<u><u>\$ 97,693</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005**

ASSETS	<u>1991 Debt</u>	<u>2000 Debt</u>	<u>2005 Debt</u>	<u>Series B 2005 Debt</u>	<u>Totals</u>
Cash	\$ 75,516	\$ 216,259	\$ 94	\$ 518,038	\$ 809,907
Accounts receivable			8,914	20,925	29,839
Due from other governmental units	<u>3,226</u>	<u>4,648</u>	<u></u>	<u></u>	<u>7,874</u>
TOTAL ASSETS	<u><u>\$ 78,742</u></u>	<u><u>\$ 220,907</u></u>	<u><u>\$ 9,008</u></u>	<u><u>\$ 538,963</u></u>	<u><u>\$ 847,620</u></u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 675	\$ 138	\$	\$	\$ 813
Due to other governmental units	<u>283</u>	<u>406</u>	<u></u>	<u></u>	<u>689</u>
Total liabilities	958	544			1,502
Fund balances:					
Reserved for debt service	<u>77,784</u>	<u>220,363</u>	<u>9,008</u>	<u>538,963</u>	<u>846,118</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 78,742</u></u>	<u><u>\$ 220,907</u></u>	<u><u>\$ 9,008</u></u>	<u><u>\$ 538,963</u></u>	<u><u>\$ 847,620</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NONMAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005**

	1991 Debt	1996 Debt	2000 Debt	2005 Debt	Series B 2005 Debt	Totals
REVENUES:						
Property taxes	\$ 1,966,493	\$ 705,056	\$ 3,842,546	\$	\$	\$ 6,514,095
Payment in lieu of taxes	7,636	2,739	14,921			25,296
Penalties and interest on delinquent taxes	1,406	504	2,747			4,657
M.S.U. reimbursement	105,448					105,448
Interest on investments	28,465	5,465	30,969	94	3,525	68,518
Total revenues	2,109,448	713,764	3,891,183	94	3,525	6,718,014
EXPENDITURES:						
Retirement of bonded debt	924,704	40,000	1,150,000			2,114,704
Interest on bonded debt	1,390,296	395,413	1,879,766	132,923		3,798,398
Bond issuance costs				172,894	431,111	604,005
Advance refunding escrow			825,000			825,000
Paying agent fees	1,001	350	275			1,626
Total expenditures	2,316,001	435,763	3,855,041	305,817	431,111	7,343,733
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(206,553)	278,001	36,142	(305,723)	(427,586)	(625,719)
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of bonds				18,815,000	55,475,000	74,290,000
Proceeds from premium on bonds				734,865	3,345,657	4,080,522
Payment to refunded bond escrow agent				(19,368,057)	(57,854,108)	(77,222,165)
Transfer from other funds	85,483		79,141	132,923		297,547
Transfer to other funds		(297,547)				(297,547)
Proceeds from school bond loan fund	143,976					143,976
Total other financing sources (uses)	229,459	(297,547)	79,141	314,731	966,549	1,292,333
NET CHANGE IN FUND BALANCES	22,906	(19,546)	115,283	9,008	538,963	666,614
FUND BALANCES, beginning of year	54,878	19,546	105,080			179,504
FUND BALANCES, end of year	\$ 77,784	\$	\$ 220,363	\$ 9,008	\$ 538,963	\$ 846,118

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
CAPITAL PROJECTS FUND - SINKING FUND
DETAIL OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2005**

EXEPENDITURES:

Donley Elementary	\$ 219,868
Glencairn Elementary	62,276
Marble Elementary	249,776
Pinecrest Elementary	67,459
Red Cedar Elementary	68,835
Whitehills Elementary	182,611
MacDonald Middle School	55,544
East Lansing High School	61,493
Timberlane facility	158,499
Athletic fields	<u>13,733</u>

Total expenditures	1,140,094
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OTHER FINANCING USES:

Transfer to other funds	<u>500,000</u>
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Total expenditures and other financing uses	<u><u>\$ 1,640,094</u></u>
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SCHOOL DISTRICT OF THE CITY OF EAST LANSING
2000 CAPITAL PROJECTS FUND
DETAIL OF EXPENDITURES
YEAR ENDED JUNE 30, 2005

MacDonald Middle School:

Furnishings	\$ 33,771
Technology	58,332
Remodeling	193,866
Site development	6,518
Architectural fees and other costs	13,669

Total MacDonald Middle School	306,156
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East Lansing High School:

Furnishings	1,222,202
Technology	353,589
Remodeling	9,518,286
Site development	505,106
Architectural fees and other costs	1,446,288

Total East Lansing High School	13,045,471
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Administrative:

Furnishings	1,245
Technology	17,013
Architectural fees and other costs	472

Total administrative	18,730
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Service center:

Furnishings	4,522
Technology	1,890

Total service center	6,412
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Pool:

Furnishings	2,089
Remodeling	1,136,247
Site development	246,000
Architectural fees and other costs	237,703

Total pool	1,622,039
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Total expenditures	\$ 14,998,808
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SCHOOL DISTRICT OF THE CITY OF EAST LANSING
FIDUCIARY FUND - AGENCY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005

	High School	MacDonald	Elementary and other	Totals
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash	\$ 252,923	\$ 33,586	\$ 101,622	\$ 388,131
Accounts receivable			3,831	3,831
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 252,923</u>	<u>\$ 33,586</u>	<u>\$ 105,453</u>	<u>\$ 391,962</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Accounts payable	\$ 34,173	\$ 301	\$ 535	\$ 35,009
Due to student, school, and other groups	218,750	33,285	104,918	356,953
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 252,923</u>	<u>\$ 33,586</u>	<u>\$ 105,453</u>	<u>\$ 391,962</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
FIDUCIARY FUND - AGENCY FUNDS
STATEMENT OF CASH RECIEPTS AND DISBURSEMENTS BY SCHOOL
YEAR ENDED JUNE 30, 2005**

	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005
East Lansing High School	\$ 250,363	\$ 425,946	\$ 457,559	\$ 218,750
MacDonald Middle School	34,790	54,162	55,667	33,285
Donley Elementary School	6,940	7,181	7,341	6,780
Glencairn Elementary School	2,385	47,361	39,193	10,553
Marble Elementary School	16,365	39,215	34,593	20,987
Pinecrest Elementary School	9,980	4,579	8,210	6,349
Red Cedar Elementary School	9,033	8,345	9,298	8,080
Whitehills Elementary School	6,143	35,471	33,520	8,094
Other	43,202	31,802	30,929	44,075
	<u>\$ 379,201</u>	<u>\$ 654,062</u>	<u>\$ 676,310</u>	<u>\$ 356,953</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
COMBINED BONDED DEBT SERVICE REQUIREMENTS
YEAR ENDED JUNE 30, 2005**

Year ending June 30,	1991 Debt	2000 Debt	2005 Debt	2005 Series B Debt	Combined
2006	\$ 2,255,000	\$ 1,505,150	\$ 714,213	\$ 3,114,880	\$ 7,589,243
2007		1,451,100	3,104,213	2,866,025	7,421,338
2008		1,422,050	3,152,512	2,867,875	7,442,437
2009		1,916,250	2,654,075	2,869,300	7,439,625
2010		1,834,000	2,730,475	2,865,275	7,429,750
2011			2,822,350	4,621,250	7,443,600
2012			2,907,825	4,532,500	7,440,325
2013			3,001,500	4,438,500	7,440,000
2014			1,846,750	4,734,500	6,581,250
2015				5,061,000	5,061,000
2016				4,965,500	4,965,500
2017				4,873,000	4,873,000
2018				4,778,250	4,778,250
2019				4,676,250	4,676,250
2020				4,572,250	4,572,250
2021				4,466,250	4,466,250
2022				4,353,250	4,353,250
2023				4,238,500	4,238,500
2024				4,097,000	4,097,000
2025				3,950,000	3,950,000
2026				3,777,750	3,777,750
2027				3,606,500	3,606,500
2028				3,481,250	3,481,250
2029				3,309,750	3,309,750
2030				3,134,250	3,134,250
Unrecorded appreciation	2,255,000 147,897	8,128,550	22,933,913	100,250,855	133,568,318 147,897
	<u>\$ 2,107,103</u>	<u>\$ 8,128,550</u>	<u>\$ 22,933,913</u>	<u>\$ 100,250,855</u>	<u>\$ 133,420,421</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
1991 DEBT
YEAR ENDED JUNE 30, 2005**

Capital Appreciation (Serial) Bonds issued for \$7,139,784 (Face amount at maturity \$18,060,000) on August 22, 1991, the approximate yield of the bond's appreciation ranges from 6.85% to 6.90%

<u>Date</u>	<u>Appreciation</u>	<u>Payments</u>	<u>Appreciated value</u>
05/01/05	\$	\$	\$ 2,107,103
11/01/05	72,697		2,179,800
05/01/06	<u>75,200</u>	2,255,000	
Unrealized appreciation	<u>\$ 147,897</u>		

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2000 DEBT
YEAR ENDED JUNE 30, 2005**

Bond issued to provide funds for erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping and re-equipping East Lansing High School and developing and improving outdoor physical education/athletic facilities; acquiring and installing educational technology; partially remodeling, furnishing and re-furnishing, equipping and re-equipping existing buildings, in part, for relocating the alternative high school program and to relocate the central office and support services; acquiring, developing and improving sites; erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping MacDonald Middle School, acquiring, installing and equipping technology therefore; developing and improving its outdoor physical education/athletic facilities and the site; erecting, furnishing and equipping a swimming pool addition to the East Lansing High School and developing and improving the site; and to pay the costs of issuing the Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 1,175,000	\$ 165,075	\$ 165,075	2006	\$ 1,505,150
1,175,000	138,050	138,050	2007	1,451,100
1,200,000	111,025	111,025	2008	1,422,050
1,750,000	83,125	83,125	2009	1,916,250
1,750,000	42,000	42,000	2010	1,834,000
<u>\$ 7,050,000</u>	<u>\$ 539,275</u>	<u>\$ 539,275</u>		<u>\$ 8,128,550</u>

The above bonds have interest rates from 4.55% to 4.80%.

Total amount of original issue was \$66,080,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT (REFUNDING OF 1991 AND 1996 DEBT)
YEAR ENDED JUNE 30, 2005**

Bond issued to provide funds to advance refund all or a portion of the School District's outstanding 1991 School Building and Site Bonds and 1996 Refunding Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$	\$	\$	2006	\$
2,390,000	357,106	357,107	2007	714,213
2,510,000	357,106	357,107	2008	3,104,213
2,090,000	321,256	321,256	2009	3,152,512
2,250,000	282,037	282,038	2010	2,654,075
2,415,000	240,237	240,238	2011	2,730,475
2,585,000	203,675	203,675	2012	2,822,350
2,795,000	161,412	161,413	2013	2,907,825
1,780,000	103,250	103,250	2014	3,001,500
	33,375	33,375		1,846,750
<u>\$ 18,815,000</u>	<u>\$ 2,059,454</u>	<u>\$ 2,059,459</u>		<u>\$ 22,933,913</u>

The above bonds have interest rates from 3.00% to 5.00%.

Total amount of original issue was \$18,815,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2005 DEBT SERIES B (REFUNDING OF 2000 DEBT)
YEAR ENDED JUNE 30, 2005**

Bond issued to provide funds to advance refund a portion of the School District's outstanding 2000 School Building and Site Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 105,000	\$ 1,627,792	\$ 1,382,088	2006	\$ 3,114,880
105,000	1,380,513	1,380,512	2007	2,866,025
110,000	1,378,938	1,378,937	2008	2,867,875
115,000	1,377,150	1,377,150	2009	2,869,300
115,000	1,375,138	1,375,137	2010	2,865,275
1,875,000	1,373,125	1,373,125	2011	4,621,250
1,880,000	1,326,250	1,326,250	2012	4,532,500
1,880,000	1,279,250	1,279,250	2013	4,438,500
2,270,000	1,232,250	1,232,250	2014	4,734,500
2,710,000	1,175,500	1,175,500	2015	5,061,000
2,750,000	1,107,750	1,107,750	2016	4,965,500
2,795,000	1,039,000	1,039,000	2017	4,873,000
2,840,000	969,125	969,125	2018	4,778,250
2,880,000	898,125	898,125	2019	4,676,250
2,920,000	826,125	826,125	2020	4,572,250
2,960,000	753,125	753,125	2021	4,466,250
2,995,000	679,125	679,125	2022	4,353,250
3,030,000	604,250	604,250	2023	4,238,500
3,040,000	528,500	528,500	2024	4,097,000
3,045,000	452,500	452,500	2025	3,950,000
3,025,000	376,375	376,375	2026	3,777,750
3,005,000	300,750	300,750	2027	3,606,500
3,030,000	225,625	225,625	2028	3,481,250
3,010,000	149,875	149,875	2029	3,309,750
2,985,000	74,625	74,625	2030	3,134,250
<u>\$ 55,475,000</u>	<u>\$ 22,510,781</u>	<u>\$ 22,265,074</u>		<u>\$ 100,250,855</u>

The above bonds have interest rates from 3.00% to 5.00%.

Total amount of original issue was \$55,475,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
INVESTMENTS
JUNE 30, 2005**

	<u>Interest rate</u>	<u>Amount</u>
General fund:		
Standard Federal	2.75%	\$ 203,544
Michigan Class Pool	3.14%	<u>106,664</u>
		<u>310,208</u>
2000 capital projects fund:		
Flagstar Bank - Certificate of Deposit	3.34%	3,900,000
Flagstar Bank - Certificate of Deposit	3.43%	4,000,000
Flagstar Bank - Certificate of Deposit	3.58%	<u>1,728,574</u>
		<u>9,628,574</u>
Sinking fund:		
Comerica Bank - Lehman Brothers A1P1	3.08%	1,524,451
Michigan Class Pool	3.14%	<u>99,511</u>
		<u>1,623,962</u>
Total investments		<u><u>\$ 11,562,744</u></u>

SCHOOL DISTRICT OF THE CITY OF EAST LANSING
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2005

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 24, 2005

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2005, which collectively comprise School District of the City of East Lansing's basic financial statements and issued our report thereon dated August 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
School District of the City of East Lansing

August 24, 2005

We noted certain matters that we reported to management of School District of the City of East Lansing in a separate letter dated August 24, 2005.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamer, Costenaro & Ellis, P.C.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

August 24, 2005

Compliance

We have audited the compliance of the School District of the City of East Lansing with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The School District of the City of East Lansing's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District of the City of East Lansing's management. Our responsibility is to express an opinion on the School District of the City of East Lansing's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of East Lansing's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District of the City of East Lansing's compliance with those requirements.

In our opinion, the School District of the City of East Lansing complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

To the Board of Education
School District of the City of East Lansing

August 24, 2005

Internal Control Over Compliance

The management of the School District of the City of East Lansing is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2005, and have issued our report thereon dated August 24, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Mamer, Costeniser & Ellis, P.C.

Certified Public Accountants

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch Breakfast	10.553	041970	\$ 29,403	\$	\$ 27,728	\$ 1,675	\$ 1,675	\$
		051970	28,232			28,232	28,232	
			57,635		27,728	29,907	29,907	
National School Lunch	10.555	041950	42,235		37,645	4,590	4,590	
		041960	177,810		160,148	17,662	17,662	
		051950	41,138			41,138	41,138	
		051960	180,131			180,131	180,131	
			441,314		197,793	243,521	243,521	
Total Child Nutrition Cluster			498,949		225,521	273,428	273,428	
Food Distribution:								
Entitlement Commodities	10.550		34,321			34,321	34,321	
Bonus Commodities			6,100			6,100	6,100	
			40,421			40,421	40,421	
Total U.S. Department of Agriculture			539,370		225,521	313,849	313,849	
<u>U.S. Department of Education:</u>								
Passed through the Michigan State University:								
PROMISE	47.076		975			975	975	
Passed through the Michigan Department of Education :								
Title I - Improving Basic Programs	84.010	031530-0304	82,483	25,385	82,483	25,385		
		041530-0304	395,255	100,890	395,255	100,890		
		041530-0405	84,881			84,881	84,881	
		051530-0405	477,174			431,600	466,831	35,231
			1,039,793	126,275	477,738	642,756	551,712	35,231

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S. Department of Education (Continued):</u>								
Passed through the Michigan Department of Education (Concluded):								
Title V Part A - Innovative Programs	84.298	040250-0304 050250-0405	\$ 2,890	\$ 932	\$ 2,890	\$ 932	\$	\$
			2,150			1,375	2,150	775
			5,040	932	2,890	2,307	2,150	775
Title II Part D - Enhancing Ed. Through Technology	84.318	034290-0304 044290-0304 054290-0405	7,255	447	7,255	447		
			11,603	3,212	11,603	3,212		
			12,127			4,378	8,608	4,230
			30,985	3,659	18,858	8,037	8,608	4,230
Title III - Limited English Proficient	84.365	030580-0304 040580-0304 050580-0405	12,084	3,718	12,084	3,718		
			20,740	(10,883)	20,740	(10,883)		
			29,330			4,493	8,900	4,407
			62,154	(7,165)	32,824	(2,672)	8,900	4,407
Title II Part A - Improving Teacher Quality	84.367	030520-0304 040520-0304 040520-0405 050520-0405	3,131	3,131	3,131	3,131		
			170,181	63,911	170,181	63,911		
			16,067			16,067	16,067	
			184,738			146,937	174,639	27,702
			374,117	67,042	173,312	230,046	190,706	27,702
Total passed through Michigan Department of Education			1,512,089	190,743	705,622	880,474	762,076	72,345

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2004	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2005
<u>U.S Department of Education (Continued):</u>								
Passed through Ingham Intermediate School District:								
Special Education Cluster:								
IDEA Pre-Primary Impaired	84.173A	040460-0304	\$ 27,388	\$ 17,110	\$ 27,388	\$ 17,110	\$	\$
		050460-0405	24,145			12,939	24,145	11,206
Total Special Education Cluster			51,533	17,110	27,388	30,049	24,145	11,206
Passed through Potterville Public Schools								
Homeless	84.196A	04320-0304	500	500	500	500		
Passed through Eaton Intermediate School District:								
Safe and Drug Free Schools	84.186A	032860-0405	2,345			1,296	1,296	
		042860-0405	2,519					
			4,864			1,296	1,296	
Total U.S. Department of Education			1,569,961	208,353	733,510	913,294	788,492	83,551
<u>U.S Office of Domestic Preparedness:</u>								
Passed through Department of State Police								
State Homeland Security Grant Part II	97.004		17,600	4,240	4,240	17,575	13,335	
Total U.S. Office of Domestic Preparedness			17,600	4,240	4,240	17,575	13,335	
Total Expenditures of Federal Awards			\$ 2,126,931	\$ 212,593	\$ 963,271	\$ 1,244,718	\$ 1,115,676	\$ 83,551

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of the School District of the City of East Lansing and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title I, CFDA (#84.010) was audited as the major program, representing 49% of expenditures. The District is a low risk auditee.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Reconciliation of federal revenues reported on financial statements with expenditures per schedule of expenditures of federal awards:

Federal revenue, per financial statements:

General fund	\$ 801,827
Other nonmajor governmental funds	<u>313,849</u>
	<u><u>\$ 1,115,676</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section I - Summary of Auditors= Results

Financial Statements

Type of auditors' report issued:	Unqualified
Material weakness(es) identified:	_____ Yes <u> X </u> No
Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes <u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified:	_____ Yes <u> X </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes <u> X </u> None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	_____ Yes <u> X </u> No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I – Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

There were no findings disclosed for the past two years.



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August 24, 2005

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

In planning and performing our audit of the financial statements of the School District of the City of East Lansing for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 24, 2005, on the financial statements of the School District of the City of East Lansing.

Prior Year Comments

Improve Segregation of Accounting Department Duties

Although the size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to improve controls. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of separation of duties is cash. Currently, one individual receives checks unopened and makes a prelist of checks received. This person also compares the deposit tickets with the prelist.

Progress

The Assistant to the Superintendent receives checks and makes a prelist of checks received. Accounts Payable reconciles the prelist to the bank validated deposit ticket which ensures all checks received are properly deposited.

The manual signature stamp is kept in a locked petty cash box. The Assistant to the Superintendent has the only key to the petty cash box and does not have access to the general ledger. This area has been adequately addressed.

Improve Segregation of Accounting Department Duties

An independent person with an accounting background should review the bank reconciliation's after they are prepared. This step would not require the addition of any new employees or add significant time to the manager's/executive's time.

Progress

Richard Pugh, Accountant, prepares all bank reconciliations. Maria Bolen, Director of Finance, reviews all bank reconciliations prepared by Richard and initials them as reviewed. This area has been adequately addressed.

General Journal Entries

Journal entries, which are initiated at the management level, should be approved as part of the normal internal control process.

Progress

Richard Pugh, Accountant, prepares all journal entries. Maria Bolen, Director of Finance, reviews all journal entries prepared by Richard and initials them as reviewed. This area has been adequately addressed.

Athletic receipts

The Athletic Director records cash receipts for a sporting event on a cash worksheet and forwards the cash to the accounting department for deposit.

The Athletic Director should include his cash worksheet along with the cash for deposit forwarded to the accounting department so the cash worksheet can be reconciled with the bank validated deposit ticket by the accounting department.

Progress

The cash worksheet is not consistently included along with the cash for deposit when it is taken to the accounting department. We recommend that the cash worksheet be included for all cash taken to the accounting department for athletic receipts. This area has improved but is not consistently performed.

Disaster Recovery Plan

With the increased reliance on technology, significant amounts of valuable data are stored electronically. In time of emergency, a formalized program including a secondary off-site system that may be utilized, and guidelines on lines of responsibility and courses of action is invaluable in providing for continuity of information flow. We recommend the District consider developing such a plan.

Progress

The development of a formal disaster recovery plan is in progress and should be completed by the end of the 2005-2006 fiscal year.

CURRENT YEAR COMMENTS

Bank Reconciliation Review

Currently, bank reconciliations are reviewed in a timely manner as previously noted. We recommend the CD showing cancelled checks be reviewed and documented as part of the review process periodically for any unusual payees, signatures or other unusual items.

Duplicate Invoices

We noted a few vendors that were paid twice for a single invoice, this caused an over payment to the vendor which were not detected until several months after payment. These amounts were subsequently corrected.

Duplicate copies of invoices should be marked or destroyed and discarded upon receipt in such a manner that will prevent duplicate payment.

New Rules For §403(B) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used.

The IRS recently announced that they are delaying the effective date for these rules until plan years beginning after December 31, 2006. Therefore, no action is necessary at this time.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
School District of the City of East Lansing
East Lansing, Michigan

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August 24, 2005

This report is intended solely for the information and use of School District of the City of East Lansing, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mammy Costeniser & Ellis, P.C.



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August 24, 2005

To the Finance Committee
School District of the City of East Lansing
East Lansing, Michigan

We have audited the financial statements of the School District of the City of East Lansing for the year ended June 30, 2005, and have issued our report thereon dated August 24, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 2, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District of the City of East Lansing's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the School District of the City of East Lansing's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District of the City of East Lansing's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District of the City of East Lansing are described in Note 1 to the financial statements. The District did update its investment policy. We noted no transactions entered into by the School District of the City of East Lansing during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated liability for compensated absences and estimated fixed asset lives for depreciation.

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was \$6,965,438. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole. This amount increased significantly due to changes in contract language.

Certain amounts included as capital assets have been estimated. Certain allocations on the statement of activities allocating operating grants between instruction and support services have been used in preparing this statement.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District of the City of East Lansing, either individually or in the aggregate, indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process. All adjustments have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District of the City of East Lansing' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service and would be happy to discuss the foregoing items at your convenience.

Very truly yours,

Mammy Costenaro & Ellis, P.C.